

Message Text

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SUBJECT: ECONOMIC SITREP NO. 5, NOVEMBER 5

REF: ROME 18040

1. SUMMARY. A BREATHING SPELL FOR AUSTERITY ANNOUNCEMENTS WHILE PRESS WORRIES OVER MEASURES TO COME. WHILE MINISTER OF INDUSTRY AND MINISTER OF FINANCE ASSESS REVENUE EFFECT OF GOI MEASURES ITALIANS HAVE YET TO FEEL THE STING. A FOUR-POINT JUMP IN WAGE INDEXATION ESCALATOR IS EXPECTED TO BE ANNOUNCED NOVEMBER 6, BRINGING YEAR TOTAL TO 20 POINTS. TOTAL COST TO ECONOMY IN 1976 OF WAGE ESCALATOR INCREASES ESTIMATED AT 395. BILLION LIRE. BANK OF ITALY GOVERNOR LISTS AVAILABLE LINES OF EXTERNAL CREDIT. FOREIGN EXCHANGE MARKET ACTIVITY LIGHT AS A "WAIT AND SEE" ATTITUDE TAKES HOLD. END SUMMARY.

2. A BREATHING SPELL. WITH PRIME MINISTER ANDREOTTI'S ANNOUNCEMENT THAT NO NEW ECONOMIC MEASURES WOULD BE INTRODUCED UNTIL AFTER PARLIAMENTARY DEBATE NEXT WEEK, ECONOMIC NEWS HAS BEEN DOMINATED BY PUBLIC AIRING OF REFINEMENTS OF DIFFERENT MEASURES TO REDUCE DEMAND AND CAPTURE NEW REVENUES WHICH HAVE ALREADY BEEN
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HEADLINED. PRIME AMONG THESE ARE ADJUSTMENTS TO THE

WAGE INDEXATION ESCALATOR AND FISCALIZATION OF COST TO EMPLOYERS OF SOCIAL INSURANCE. WHILE THE LABOR UNIONS' ALTERNATIVE TO THE GOVERNMENT'S PARTIAL FREEZE OF THE ESCALATOR (ROME 17357) IS UNDER CONSIDERATION BY GOI, THE UNIONS' REACTION TO REPORTS THAT OTHER POSSIBLE ADJUSTMENTS ARE BEING CONSIDERED, INCLUDING A CEILING ON NUMBER OF POINTS PER YEAR AND A SEMI-ANNUAL RATHER THAN QUARTERLY REVIEW OF THE ADJUSTMENTS, HAVE NOT YET BEEN VOICED.

3. "COUNTING THE GOLDBIZ MINISTER OF INDUSTRY DONAT-

CATTIN AND TREASURY AND FINANCE MINISTERS HAVING SEMI-PUBLIC DEBATE ON AMOUNT OF REVENUES TO BE RELAIZED BY MEASURES ALREADY TAKEN AND THOSE ALREADY AGREED TO BE TAKEN, WITH DONAT-CATTIN ESTIMATING 5,200 BILLION LIRE, WHILE TREASURY AND FINANCE MINISTERS ESTIMATE 4,628 BILLION LIRE. WHATEVER THE FIGURE, FEW OF THE MEASURES TAKEN THUS FAR HAVE MADE AN IMMEDIATE DENT IN WALLET OF THE AVERAGE ITALIAN. FOR EXAMPLE, ELECTRICITY, TELEPHONE AND GAS BILLS ARE ISSUED QUARTERLY AND NEW MONTHLY HEATING BILLS HAVE NOT YET BEEN ASSESSED.

4. A FOUR POINT JUMP IN THE WAGE INDEXATION ESCALATOR. THE RESULTS OF THE SPECIAL COST-OF-LIVING COMMITTEE REVIEW COVERING THE PERIOD JULY 15 TO OCTOBER 15 ARE TO BE ANNOUNCED NOVEMBER 6. EXPECTATIONS ARE THAT THE WAGE INDEXATION ESCALATOR WILL JUMP FOUR POINTS, WITH AN AVERAGE COST PER POINT PER MONTH OF SLIGHTLY ABOVE 2,000 LIRE. WAGE COSTS DURING 1976 ATTRIBUTABLE TO ESCALATOR WILL AMOUNT TO 395 BILLION LIRE.

5. EXTERNAL CREDIT LINES. BANK OF ITALY GOVERNOR BAFFI, IN PRESENTATION TO SENATE FINANCE COMMITTEE ON WEDNESDAY, INDICATED THAT ITALY STILL HAD FOLLOWING EXTERNAL CREDIT LINES AVAILABLE (IN MILLIONS OF DOLLARS): 750 FEDERAL RESERVE SWAP; 700 FROM EC (SOME REPORTS SAID THAT THIS REFERS TO NEGOTIATIONS NOW UNDERWAY FOR SHORT-TERM CREDIT, OF WHICH 486 WOULD BE USED TO REPAY LIMITED OFFICIAL USE

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U.K. LOAN THE THE REST COULD THEN BE TURNED INTO MIDDLE TERM OPERATION); 500 FROM THE GERMAN \$2 BILLION GOLD-BACKED LOAN, AND 530 IMF STANDBY NOW UNDER NEGOTIATION, WHICH COULD BE INCREASED UNDER EMERGENCY CONDITIONS.

6. EXCHANGE AND CREDIT MARKETS. MONEY RATES DECLINED SLIGHTLY THIS WEEK AND STOCK PRICES ROSE A BIT. AS OF

WEDNESDAY, NOVEMBER 4 (THURSDAY WAS A NATIONAL HOLIDAY), THE THREE-MONTH INTERBANK RATE WAS 18.625, COMPARED TO 18.875 THE PRECEDING FRIDAY. THE AVERAGE YIELD ON BONDS ROSE TO 14.398 ON WEDNESDAY FROM 14.393 ON FRIDAY. ALTHOUGH BOND AND STOCK PRICES ARE SLIGHTLY HIGHER THAN IN THE PREVIOUS WEEK, POSSIBLY AS CONSEQUENCE OF DISCUSSION OF MEASURES TO REDUCE THE COST OF LABOR, THEY REMAIN CLOSE TO THEIR ALL-TIME LOWS. THE LIRA DEPRECIATED SLIGHTLY TO 865.45 ON FRIDAY, NOVEMBER 5 FROM 863.95 ON PRECEDING FRIDAY. THROUGHOUT THE SECOND WEEK OF THE 7 PERCENT TAX ON FOREIGN EXCHANGE PURCHASES THE MARKET DEMAND WAS EXCEEDINGLY LIGHT EXCEPT, IT SEEMS, FOR OIL COMPANY REQUIREMENTS.

7. ECONOMIC INDICATOR CORRECTION. ANNUAL GROWTH OF MONETARY BASE GIVEN PARA 6 SITREP 3 (REFTEL) FOR TWELVE MONTHS FROM AUGUST 1975 TO AUGUST 1976 SHOULD READ UP 20 PERCENT (VICE 16.7 PERCENT), COMPARED TO 13.8 PERCENT (VICE 12.2 PERCENT) INCREASE IN TWELVE MONTHS AUGUST 1974 TO AUGUST 1975. VOLPE

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